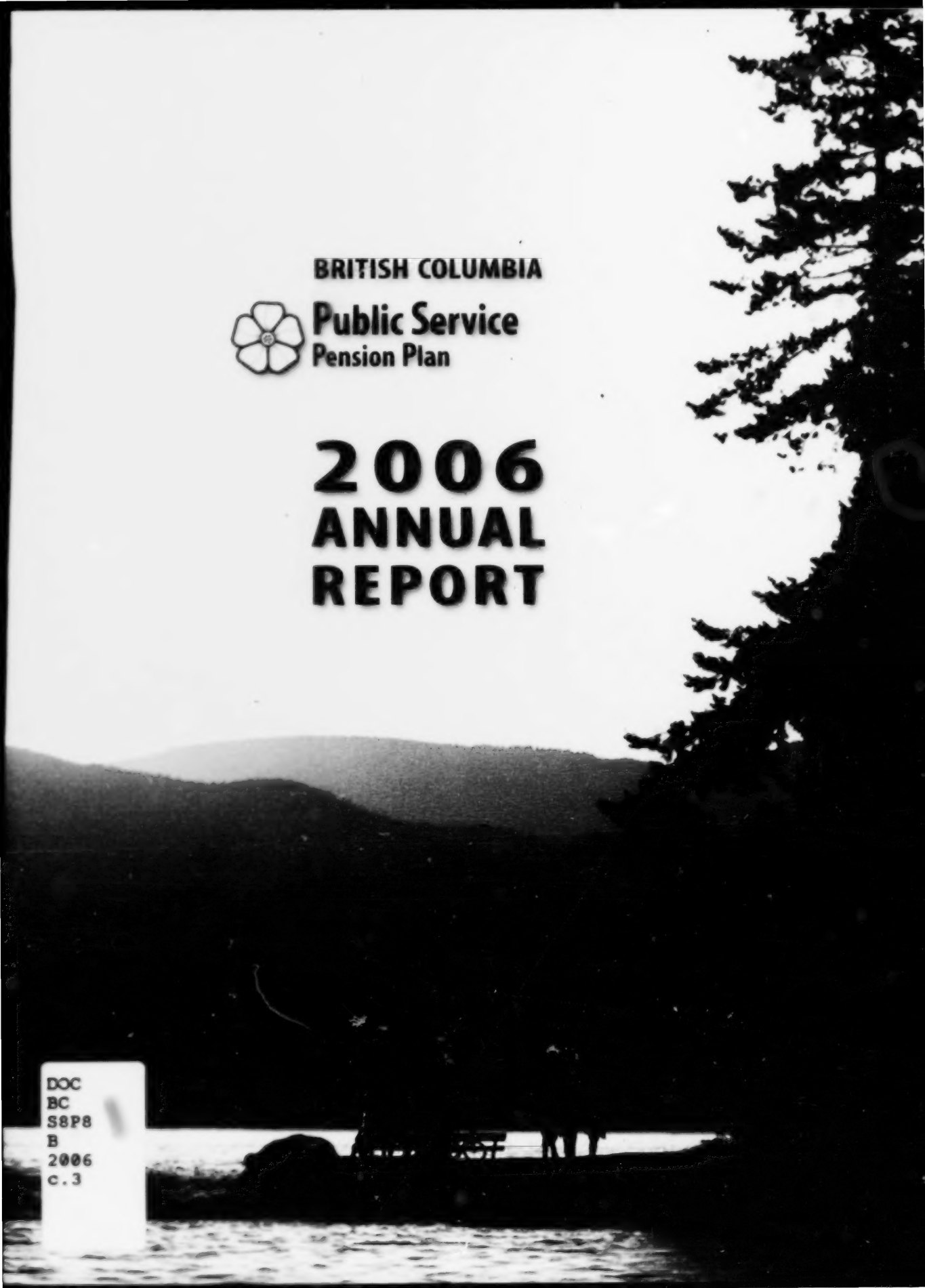
BRITISH COLUMBIA

Public Service
Pension Plan

2006 ANNUAL REPORT



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Public Service Pension Plan

2006 ANNUAL REPORT

April 1, 2005 to March 31, 2006

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Message from the Trustees

Welcome to the Public Service Pension Plan annual report for the fiscal year ending March 31, 2006.

British Columbia's Public Service Pension Plan is one of the largest defined benefit plans in the country with nearly 50,000 members currently making contributions to the plan, and almost 31,000 retired members collecting their pensions. As the board of trustees, we are responsible for managing the plan's $15.9 billion in assets. We develop policies and make decisions knowing that, for most of our members, their Public Service pension is the most important asset they have to ensure a comfortable retirement. Employers are also directly impacted by our decisions. We strive to find the balance that acknowledges the significant contributions of both groups while ensuring the long-term health of the plan.

Pension plans are receiving more attention in the media these days, and for good reason. Baby boomers are entering their retirement years and people are generally living longer—factors that are placing significant strain on pension plans. The Public Service Pension Plan is not immune to the same pressures faced by other plans.

Throughout the 1980s and 1990s the plan benefited from higher than expected investment returns. This resulted in a steady improvement in the plan's funded status and, as a result, allowed for lower contribution rates. However, in last year's annual report we indicated that delayed effects of poor investment returns experienced during fiscal years 2001 to 2003 would lead to a significant deterioration in the plan's actuarial position.

The actuarial valuation as at March 31, 2005 confirmed those expectations and revealed an unfunded liability of $767 million. The board announced a contribution rate increase effective April 1, 2006 to address that liability. Investment returns exceeded expectations in fiscal year 2006, but we anticipate the current low interest environment will produce subdued returns in the future.

During this last year, the board developed a long-term funding policy for basic pension benefits and post-retirement group benefits. At its March 2006 meeting, the board approved a funding policy that reflects the board's intentions and meets restrictions that have been or may be imposed by the partners or applicable legislation.

For basic pension benefits, the funding policy will ensure that any unfunded liabilities are amortized over 15 years and that surpluses are first assessed to ensure that stable contribution rates for members and employers can be maintained for between 15 and 25 years. Then, if contribution rates can be maintained, the trustees will consider how the surplus may be used.

The policy establishes a maximum amount, currently 2% of active member payroll that is available each year for post-retirement group benefits.

For inflation protection, the board is continuing to develop a policy. The board monitors the plan's ability to provide inflation protection for basic pensions on an ongoing basis.

We encourage all employers and plan members to stay informed about the Public Service Pension Plan and the role it plays in your operations and personal retirement plans. Extensive information, including highlights from our board meetings, is posted on our website at **pspp.pensionsbc.ca**.

John W. Cook
Chair

Public Service Pension Board of Trustees
As at March 31, 2006

Trustee	Appointing Body	Nominating Body	Employer
John W. Cook, Chair			
Ed Bodner	BC Government Retired Employees' Association		Retired
Joyce Burns	B.C. Government and Service Employees' Union (BCGEU)	Unions other than BCGEU	BC Ferry Services Inc.
Adam Charania	Provincial Government		Ministry of Labour and Citizens' Services
Bruce Clow	Provincial Government		BC Buildings Corporation
David Day	Provincial Government	BC Excluded Employees' Association	BC Excluded Employees' Association
Andy Jani	Provincial Government		Ministry of Energy, Mines and Petroleum Resources
Jodi Jensen	BCGEU	Professional Employees Association	Professional Employees Association
Bruce Kennedy	Provincial Government		Public Sector Employers' Council
Paul Martin	BCGEU		BCGEU
Laurie McAmmond	Provincial Government	Crown Corporations Employers' Association	BC Assessment Authority
Ron McEachern	Provincial Government		Retired
Sandi McLean	BCGEU		Ministry of Finance
David Vipond	BCGEU		BCGEU
Diane Wood	BCGEU		Retired

Message from the Chief Executive Officer—Pension Corporation

The BC Pension Corporation is one of Canada's largest public sector pension administrators. As an agent to the Public Service Pension Board of Trustees, we perform key administrative duties such as enrolling members, collecting and recording members' and employers' contributions, and calculating, processing and paying pension benefits. We also provide policy, financial and communication support to the Public Service Pension Board of Trustees.

It has been a year of innovation, teamwork, continuous improvement and accomplishment. We made specific commitments for faster response times, decreased costs, higher productivity, and increased client satisfaction. We also committed to simplifying and streamlining operations. I believe that we have met and even exceeded expectations.

Public Service Pension Plan members continued to show high satisfaction with the Pension Corporation's products and services. The corporation measured the percentage of members who were "very satisfied" or "satisfied" and found:

- 85% Active members
- 91% Recent retirees
- 92% Longer-term retirees
- 94% Employers

This year, we met, and in some cases exceeded, service standards for almost all key transactions, despite significantly higher than expected volumes. As well, current benchmarking results confirmed that the Pension Corporation's costs to administer the plan are competitive with our Canadian and international peers.

It has been just over three years that I have had the privilege to serve as Chief Executive Officer. The corporation has worked hard to serve you effectively—ensuring great value, service you trust, people who care. We look forward to working with you in the coming years.

I would like to sincerely thank the employees and management of the Pension Corporation for their dedication, hard work, and commitment to exceptional client service.

Gail Stephens
Chief Executive Officer
BC Pension Corporation

Message from the Chief Investment Officer—bcIMC

Investment Results—Year End Review

I am pleased that 2005/06 was an outstanding year for bcIMC and our clients. We generated returns for the Public Service Pension Plan of 15.3%, which was almost two percentage points above the plan's benchmark return of 13.4%. This means that bcIMC produced approximately $280 million in added value for the Basic and Inflation Accounts of your plan.

As I look back on 2005/06 and ahead to the coming years, three challenges stand ou for bcIMC in our mission to provide clients with outstanding service. They are:

- finding investment opportunities and returns,
- risk management and the protection of capital, and
- building our capacity to meet client expectations.

The capital markets are more competitive than ever before, and it is more of a challenge to find investment opportunities that meet the financial objectives of our clients. In response, bcIMC is becoming more global in our outlook and we are looking at ways to increase our value added. This includes increasing our exposure t strategic investments and examining new asset classes and investment strategies.

Risk management contributes to the protection of capital, and it underpins all aspects of our operations and investment management activities. In 2005/06, we put in place environmental and legal risk management frameworks, as well as policies, procedures and preparations for unpredictable events, such as disease pandemics an earthquakes that could threaten our operations.

Our clients expect bcIMC to be skilled, energetic and service oriented. We continue to strive to provide quality service to the Public Service Pension Plan. In the coming year, bcIMC will continue to add staff and resources to deal with the increasing complexity of client mandates and the growth in assets under administration. We w continue to upgrade our information technology to support investment activities, ri management and all of our other operations.

Being a responsible investor is an ongoing initiative for bcIMC. Although our prudence and due diligence is the foundation of our responsible investing activities, with the support of most of our clients, including the Public Service Pension Board of Trustees, environmental, social and governance factors are becoming increasingly important in the management of the plan's assets. One aspect includes playing an active role in proxy voting and engaging management on our views of their performance in these areas. In 2005/06, bcIMC voted on over 5,000 resolutions for our Canadian, U.S. and non-North American public equity holdings. During the year, bcIMC also joined the Investor Network on Climate Risk, the United Nations Environment Program, and participated in the 4th Carbon Disclosure project. In addition, our mortgage and real estate programs are becoming more involved in LEED® (Leadership in Environmental and Energy Design) certified developments.

I thank you for the confidence and trust you have placed in bcIMC.

Doug Pearce
Chief Investment Officer/
Chief Executive Officer
BC Investment Management
Corporation

Partners, Trustees and Agents

The Public Service Pension Plan is governed by representatives of both plan mem and plan employers. These representatives make up the board of trustees. This sh management is called joint trusteeship. For more information on joint trusteeshi visit the plan website at **pspp.pensionsbc.ca**.

The **plan partners** are the provincial government and the B.C. Government and Service Employees' Union (BCGEU). These partners and other organizations representing plan employers and plan members are responsible for nominating a appointing the trustees.

The **Public Service Pension Board of Trustees** is responsible for the managemen of the pension plan, including asset investment and plan administration. The boa of trustees may amend the pension plan rules as long as changes can be funded b pension fund surpluses or are cost-neutral to the plan. Plan rule changes that res contribution rate changes must be initiated by the partners. However, if the actua determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The **British Columbia Pension Corporation** provides benefit administration services as an agent of the board of trustees. The corporation enrols members, co contributions, processes benefits and issues pension payments.

The **British Columbia Investment Management Corporation (bcIMC)** provide investment management services as an agent of the board of trustees. The bcIM one of the largest institutional investors in the country, offering a wide range of f management services.

Member Services and Communications

Communicating with plan members is a priority of the Public Service Pension Board of Trustees.

Communicating with plan members is a priority of the Public Service Pension Board of Trustees. Guidelines and standards are followed to ensure all plan information is easy to understand and easy to use. By practising plain language principles and focus testing many of our products, we continue to improve the effectiveness and quality of our member and employer communications.

New and updated communications materials are regularly published, and new online products and services are continually being developed. The plan produces the *Guide for Plan Members*, the annual *Member's Benefit Statement*, forms, bulletins, retirement information packages, a series of pension fact sheets, and *PensionNews*, a newsletter for retired members published twice a year.

Each year the plan publishes three audience-specific products outlining the plan's financial status. These include the *annual report*; *Report to Members*, a booklet distributed to all active members that summarizes key financial information and plan changes made within the past year; and *Report on the Plan*, which is included in the winter issue of *PensionNews*.

In addition, our website provides excellent pension plan information and online estimators at **pspp.pensionsbc.ca**.

Performance Measures and Targets

April 1, 2005 to March 31, 2006

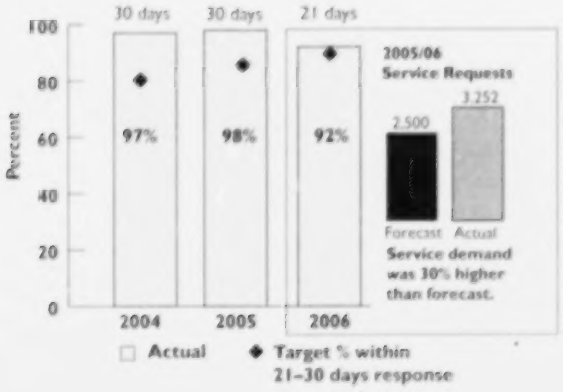
The Public Service Pension Plan is devoted to providing quality, cost-effective service to plan members. Our administrative agent, the Pension Corporation, made impressive gains in service improvements and efficiencies, including improving client response time. The board approves service standards for the plan, including client satisfaction and timeliness of response, and monitors performance against those standards. Regular surveys of plan members show that both active and retired members give the Pension Corporation a high satisfaction rating for service quality.

Satisfaction

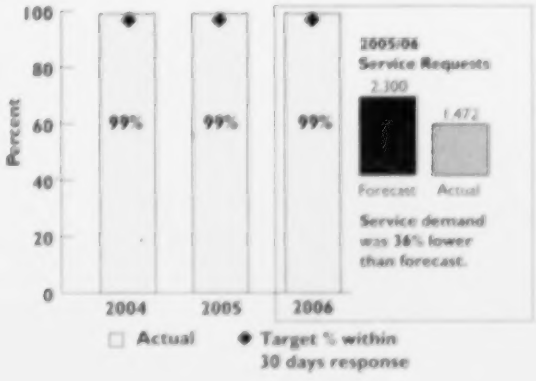
Note: Comparable targets were not established prior to 2005.

As the following graphs indicate, the plan has significantly improved service response over the past three years, while also handling substantial increases in service demand.

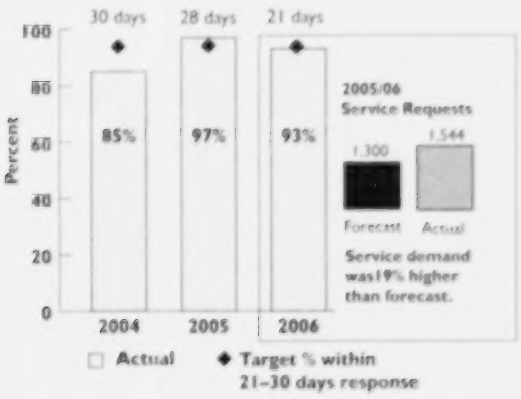
Final Pension Options on Time



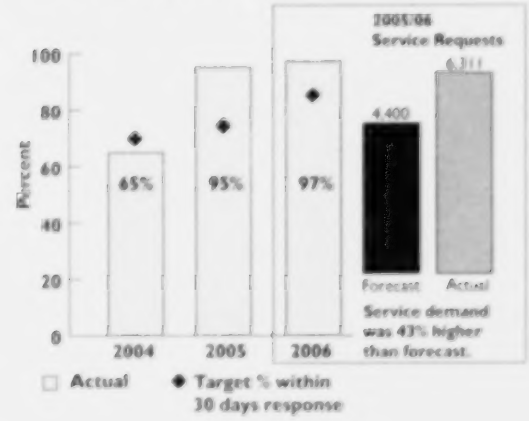
First Pension Payment on Time



Termination Options on Time



Purchase Quotes on Time



Plan Participants

Members

Membership in the Public Service Pension Plan is open to all eligible employees of the provincial public service or other employers approved by the Public Service Pension Board of Trustees. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer, or until the employee has completed 35 years of pensionable service.

There are three categories of members in the Public Service Pension Plan:

- **Active**—those currently contributing, or on a leave of absence, or receiving benefits from an approved salary continuance plan.
- **Inactive**—those who have terminated employment but whose contributions remain on deposit in the plan. They may or may not be eligible for a pension in the future.
- **Retired**—those who are receiving a pension, including those who are receiving a disability pension.

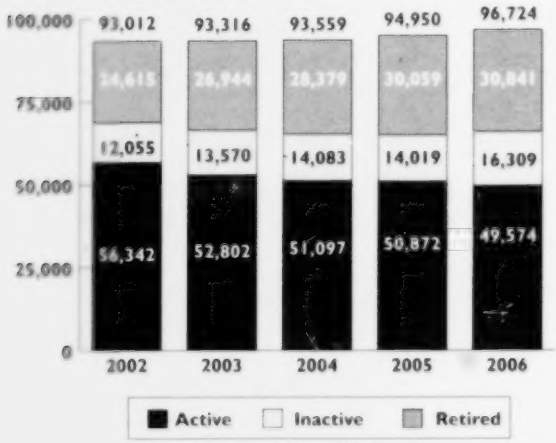
The number of active plan members in the Public Service Pension Plan decreased by 2.6% in 2006. Today there are 49,574 active members and 30,841 retired members.

Number of Members

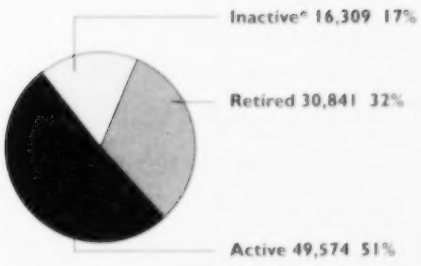
As at March 31

Year	Active	Inactive	Retired	Total
2006	**49,574**	**16,309**	**30,841**	**96,724**
2005	50,872	14,019	30,059	94,950
2004	51,097	14,083	28,379	93,559
2003	52,802	13,570	26,944	93,316
2002	56,342	12,055	24,615	93,012

Number of Members

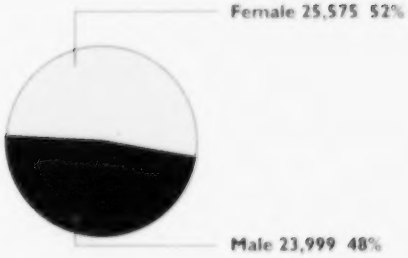


Membership Profile

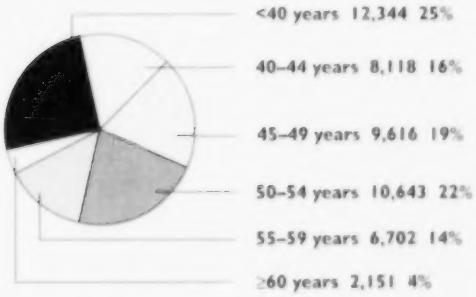


* Members no longer employed, but with money in the plan.

Active Member Profile

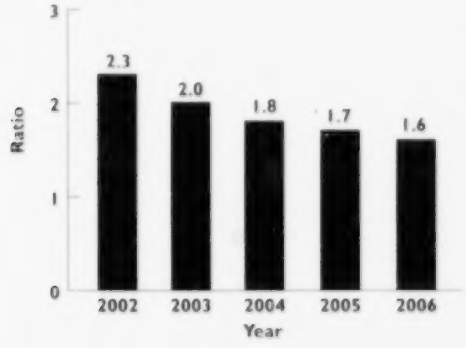


Age Profile of Active Members



Ratio of Active Members to Retired Members

As at March 31



Employers

As at March 31, 2006

Province of British Columbia

BLJC Workspace Solutions Inc.

British Columbia Assessment Authority

British Columbia Buildings Corporation

British Columbia Centre for Disease Control

British Columbia Excluded Employees' Association

British Columbia Ferry Services Inc.

BC Ferry and Marine Workers' Union

B.C. Government and Service Employees' Union

British Columbia Housing Management Commission

British Columbia Investment Management Corporation

British Columbia Institute of Technology

British Columbia Mental Health Society

BC Milk Marketing Board

BC Pavilion Corporation

British Columbia Pension Corporation

British Columbia Safety Authority

British Columbia Securities Commission

British Columbia Transit

British Columbia Treaty Commission

British Columbia Utilities Commission

Business Practices and Consumer Protection Authority

Canada/British Columbia Business Services Society

Canadian Office and Professional Employees' Union, Local 378

Canadian Road Builders Inc. (Lafrentz Division)

Coast Capital Savings Credit Union

Coast Mountain Bus Company

Cobra Electric (South Coast) Ltd.

Columbia Power Corporation

Community Living British Columbia

Deas Pacific Marine Inc.

EDS Advanced Solutions Inc.

Elections BC (Office of the Chief Electoral Officer)

Emergency Health Services Commission

Environmental Appeal Board

First People's Heritage, Language and Culture Council

Forensic Psychiatric Services Commission

Forest Practices Board

Fraser Health Authority

Fraser River Marine Transportation Ltd.

Freshwater Fisheries Society of BC

Greater Vancouver Transportation Authority

Health Research Foundation

Homeowner Protection Office

Industry Training Authority

Innovation and Science Council of British Columbia

Insurance Corporation of British Columbia

Interior Health Authority

Islands Trust Council

ISM Information Systems Management Canada Corporation

Justice Development Commission

Land and Water BC Inc.

Land Title and Survey Authority of British Columbia

Liquor Distribution Branch

Mainroad Pavement Marking Ltd.

Maximus BC Health Benefit Operations Inc.

Maximus BC Health Inc.

Northern Health Authority

Oak Bay Lodge

Office for Children and Youth

Office of the Auditor General

Office of the Conflict of Interest Commissioner

Office of the Fire Commissioner

Office of the Freedom of Information and Privacy Commissioner

Office of the Ombudsman

Office of the Police Complaint Commissioner

Okanagan Valley Tree Fruit Authority

Pacific Vehicle Testing Technologies Ltd.

Partnerships British Columbia Inc.

Professional Employees Association

Provincial Agricultural Land Commission

Provincial Health Services Authority

Public Sector Employers' Council

Royal British Columbia Museum

St. Paul's Hospital

Telus Sourcing Solutions Inc.

Tillicum and Veterans Care Society (Broadmead Lodge)

Tourism British Columbia

Union of Psychiatric Nurses

Vancouver Aboriginal Child and Family Services Society

Vancouver Coastal Health Authority

Vancouver Island Health Authority

VSA Highway Maintenance Ltd.

WaterBridge Equipment Ltd.

Western Pacific Marine Ltd.

Workers' Compensation Appeal Tribunal

Contributions

Both plan members and employers pay contributions to fund the future pension benefits.

Members of the Public Service Pension Plan contribute to the plan through automatic deductions from their salary. Both plan members and employers pay contributions to fund future pension benefits. Once a member terminates employment, retires, or reaches 35 years of pensionable service, they no longer contribute. The contribution rates in the table below are applied to pensionable salaries.

The March 31, 2005 actuarial report was received by the board in December 2005 and indicated that the basic account has an unfunded liability of $767 million (2002: $546 million surplus). As a result, the actuary determined that an increase in contribution rates of 1.88% of salary each for plan members and employers is necessary in order for the plan to maintain its long-term financial soundness and thus its ability to meet the pension promise made to plan members. The terms of the Joint Trust Agreement state that the board must amend the plan rules if they receive an actuarial valuation report which concludes an increase in contribution rates is necessary. The Joint Trust Agreement also provides that plan members and employers will share any increase or decrease in contribution rates. Therefore the board decided that, effective April 1, 2006, plan member and employer contribution rates would each increase by 1.88% of salary.

Current contribution rates:

Member

- 5.75% of pensionable salary up to and including the YMPE* (7.63% effective April 1, 2006), and
- 7.25% of pensionable salary in excess of the YMPE* (9.13% effective April 1, 2006).

Employer

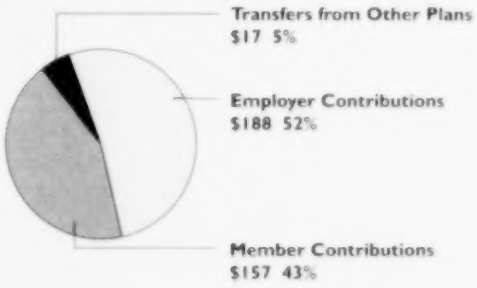
- 6.75%** of pensionable salary up to and including the YMPE,* (8.63% effective April 1, 2006), and
- 8.25%** of pensionable salary for salary in excess of the YMPE* (10.13% effective April 1, 2006).

* Year's Maximum Pensionable Earnings (YMPE) is the earnings limit on which you make Canada Pension Plan (CPP) contributions. The 2005 YMPE was $41,100, and was increased to $42,100 in 2006.

** Except for certain limited groups (e.g., correctional centre employees, ambulance employees, provincial court judges, masters of the Supreme Court, and some deputy ministers and officers of the Legislature) where employers pay a higher rate to compensate for the additional cost of their benefits.

Contributions

$ Millions

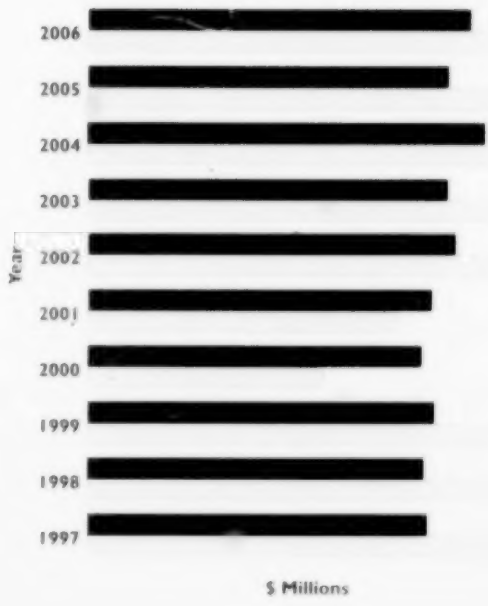


Contributions

Year ended March 31

$ Millions

Member	Employer
157.2	187.6
148.0	191.7
163.2	197.0
147.5	190.3
150.9	182.3
141.0	126.9
137.0	96.4
142.2	193.6
138.1	191.9
139.3	197.9



Plan Benefits

Basic Pension—*Monthly pension that is paid by the pension plan for a member's lifetime. The pension may continue to another person after the member's death, depending on the form of pension the member chooses at retirement.*

Bridge Benefit—*A temporary pension paid to the member from retirement until age 65 or death, whichever comes first.*

Cost-of-living—*Increases to monthly pension amounts are based on the annual increase in the cost-of-living as measured by the Consumer Price Index. Inflation adjustments begin the first January after a member retires. This indexing is not guaranteed.*

Basic Pension (Guaranteed)

Plan benefits are defined by the pension plan rules made under the authority of the Joint Trust Agreement. The basic pension benefit is defined, meaning the pension is based on how many pensionable years the member has accrued in the plan, the average of the best five years of salary (not necessarily the last five years) and age at retirement. The pension is not based on contributions to the plan, nor is it based on the investment performance of the plan's assets. The advantage of a defined benefit plan is that the pension is predictable. The plan provides entitlement to a pension benefit after two years of contributory service and after having reached a qualifying age. The plan also provides survivor and disability benefits.

At March 31, 2006, the plan provided pensions to 30,841 retired members, an increase of 2.6% from the previous year.

The basic pension is paid from the basic account of the plan.

Indexing (Non-guaranteed)

Indexing is a non-guaranteed cost-of-living supplement to the basic pension. It is paid only to the extent that there is sufficient money in the inflation adjustment account (IAA), which is funded by member and employer IAA contributions to the plan.

On January 1, 2006, retired members received a full Consumer Price Index (CPI) increase of 3.4% (2005: 1.8%). Inflation increases to the pension may be provided each year based on changes in the CPI (See Note 7b to the Financial Statements). Indexing, once granted, becomes guaranteed. The inflation account is in good financial health. The board monitors the plan's ability to continue to provide non-guaranteed indexing.

Group Benefits (Non-pension)

Group benefits (extended health, medical, and group life), are not guaranteed. They are subsidized by a limited portion of available annual employer contributions that would otherwise go to the IAA. The board monitors the plan's ability to continue to provide non-guaranteed group benefits.

Pensions 1997–2006

Year ended March 31

	Public Service			MLA			$ Millions		
	New Pensions during Year	Pension Terminations	In Force at End of Year	New Pensions during Year	Pension Terminations	In Force at End of Year)	Basic Pensions Paid	Inflation Supplements Paid	Total Pensions Paid
2006	**1,463**	**681**	**30,841**	**4**	**3**	**127**	**397.0**	**86.7**	**483.7**
2005	2,255	575	30,059	3	–	126	370.2	80.8	451.0
2004	2,005	570	28,379	2	2	123	329.9	76.1	406.0
2003	2,865	536	26,944	–	3	123	294.3	71.1	365.4
2002	1,149	500	24,615	26	2	126	250.7	66.1	316.8
2001	1,264	454	23,966	1	1	102	234.4	61.1	295.5
2000	1,066	505	23,156	2	2	102	220.2	56.6	276.8
1999	981	447	22,595	1	2	102	211.3	55.6	266.9
1998	2,178	414	22,061	–	3	103	203.1	54.2	257.3
1997	1,321	415	20,297	12	2	106	173.0	52.8	225.8

New Pensions—By Type

Year ended March 31

	Regular*	Death*	Disability†	Deferred	Total
2006	**1,054**	**48**	**86**	**275**	**1,463**
2005	1,853	35	102	265	2,255
2004	1,638	37	136	194	2,005
2003	2,344	46	317	158	2,865
2002	877	38	116	118	1,149
2001	1,017	45	106	96	1,264
2000	808	43	86	129	1,066
1999	729	40	77	135	981
1998	1,741	21	293	123	2,178
1997	1,049	27	172	73	1,321

* New regular pensions do not include pensions continued to a beneficiary upon the death of a retired member.

† Includes members on long-term disability who became eligible for a regular pension.

Transfers from the Members of the Legislative Assembly Superannuation Account

$ Thousands

Year Ended March 31	Present Value of Pensions Transferred	Inflation Adjustment Contributions Transferred
2006	**708**	**89**
2005	1,287	138
2004	687	214
2003	–	1
2002	12,964	9
2001	222	42
2000	559	56
1999	188	60
1998	–	25
1997	4,687	43

Note: When a Member of the Legislative Assembly receives a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Public Service Pension Plan, which pays the monthly benefit.

Average Values of New Regular Pensions—April 1, 2005 to March 31, 2006

Subdivided by years of service

Years of* Service	Number of New Pensions	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	102	$52,000	$ 7,100	$ 77,000	$ 7.9
10–14	130	51,000	12,200	166,000	21.6
15–19	142	51,000	16,800	230,000	32.7
20–24	141	50,000	21,700	309,000	43.6
25–29	201	57,000	29,900	446,000	89.6
30–34	267	58,000	36,300	561,000	149.8
35 years	71	57,000	38,300	602,000	42.7
Total	**1,054**	**n/a**	**n/a**	**n/a**	**$387.9**
Average of all Pensions	**n/a**	**$54,000**	**$24,800**	**$368,000**	**n/a**

* Years of service includes service transferred from other plans.

New Regular Pensions—By Age at Retirement Normal Retirement, Age 60

Subdivided by years of service and age at retirement

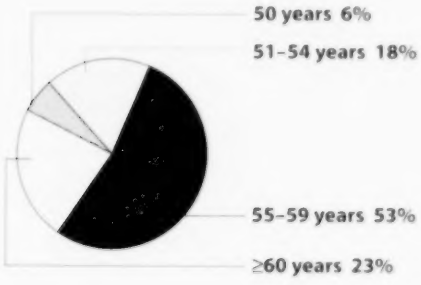
Years of Service	50	51–54	55–59	60	Total
<10 years	–	1	–	–	1
10–14	–	–	–	1	1
15–19	–	–	6	2	8
20–24	–	1	1	1	3
25–29	1	–	2	–	3
30–34	–	–	–	–	–
35 years	–	1	–	–	1
Total	**1**	**3**	**9**	**4**	**17**
Average years	**27**	**21**	**20**	**17**	**20**
Average age					**56**

New Regular Pensions—By Age at Retirement
Normal Retirement, Age 65

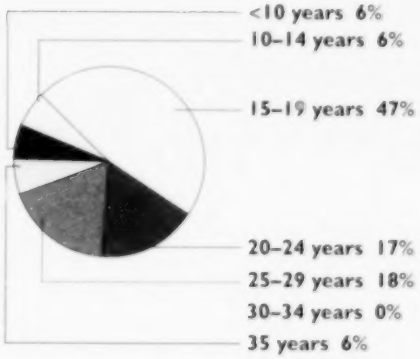
Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	≥65	Total
<10 years	12	24	44	21	101
10–14	19	34	55	21	129
15–19	21	29	52	32	134
20–24	26	39	57	16	138
25–29	54	72	61	11	198
30–34	127	82	50	8	267
35 years	34	23	11	2	70
Total	**293**	**303**	**330**	**111**	**1,037**
Average years	**27**	**24**	**20**	**17**	**23**
Average age					**58**

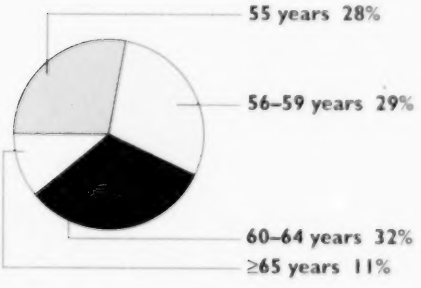
Percentage of New Regular Pensions
by Age—Normal Retirement Age 60



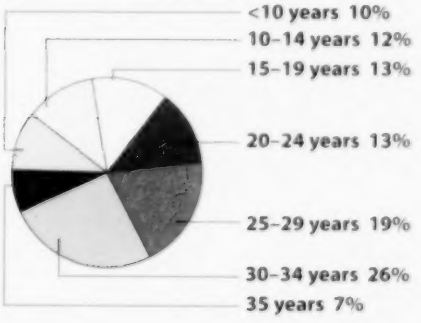
Percentage of New Regular Pensions
by Years of Service—Normal Retirement Age 60



Percentage of New Regular Pensions
by Age—Normal Retirement Age 65



Percentage of New Regular Pensions
by Years of Service—Normal Retirement Age 65



Termination and Refund Benefits

A terminating member who is eligible for a pension, but has not yet reached the earliest retirement age, may choose:

- a deferred pension, or
- transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or a similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in the pension plan in anticipation of future entitlements.

If a member is under 60 with less than two years of service, they may also choose a refund of contributions with interest. Interest compounds annually and is credited to the member's contribution balance. The balance, including interest, is shown on the annual *Member's Benefit Statement*. The rate of interest is governed by the applicable pension legislation and is based on average five-year bank personal term deposit rates. The number and value of termination benefits paid from the plan can vary from year to year, depending on the employment environment, the type of benefits paid, and the members' entitlements. The number and value of termination benefits paid increased compared to last year.

Annual Rates for Interest Credited to Contribution Balances

- Effective April 1, 2005 to March 31, 2006: 2.47%
- Effective April 1, 2004 to March 31, 2005: 2.74%

Number of Termination and Refund Benefits Paid

year ended March 31

Value of Termination and Refund Benefits Paid

year ended March 31

Termination benefits paid include refunds of contributions and commuted value payments; deferred pensions are included in pension statistics.

Transferring Service

Transfer agreements allow pension plan members to carry pension rights from one plan to another. Members may carry their years of pensionable service to a new plan, at a different place of employment, if the new plan has an agreement with the Public Service Pension Plan. In order to transfer service, the member must have left their contributions on deposit, or reinstated service. Service may not always be transferred on a one-to-one basis, but depends on differences in plan benefits between the two plans. Members of the plan who have made contributions to another pension plan may want to inquire about transfer agreements.

Service may not always be transferred on a one-to-one basis, but depends on differences in plan benefits between the two plans.

Under the *BC Public Sector Pension Transfer Agreement* of April 1, 2004, transfers can be made between the Public Service Pension Plan (PSPP) and the College, Municipal, and Teachers' pension plans and other signatories. The PSPP also participates in the *National Public Service Pension Transfer Agreement*, which allows transfers between a number of provincial public service pension plans in Canada.

There were 291 reciprocal transfers-in from other pension plans and 515 transfers-out. The transfers-in totalled $16.9 million; transfers-out totalled $55.0 million.

Purchase of Additional Service

Members of the plan may be able to increase their future pension benefits by purchasing periods of past service. Purchasing service means paying for periods of employment that have not already been counted as service with the plan. This service may include:

Members must apply to purchase historical periods of service by March 31, 2007.

- leaves of absence (maternity, parental, or other leave),
- arrears contributions (not enrolled but eligible to buy back missed contributions),
- other service (employment service before becoming a regular contributor), or
- reinstatements (contributions previously refunded from the plan).

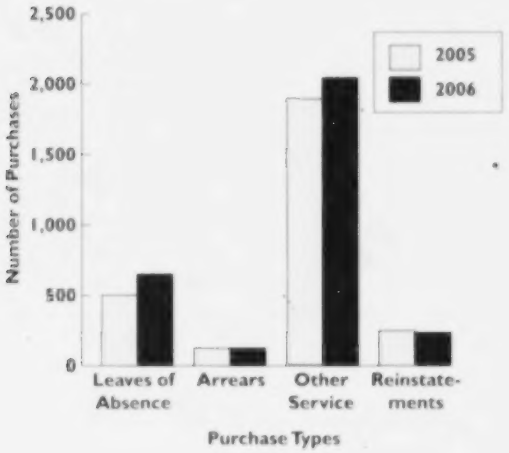
Purchase of service rules changed on April 1, 2002. Members must now apply to purchase historical periods of service by March 31, 2007. Beginning April 1, 2007, members may only purchase periods of service that occurred during the previous five years, provided the member applies to purchase prior to terminating employment. More information about purchasing service, including costs, is available on the plan website at **pspp.pensionsbc.ca**.

The number of purchases of additional service increased 10% from last year. The value of the purchases increased 3.0%.

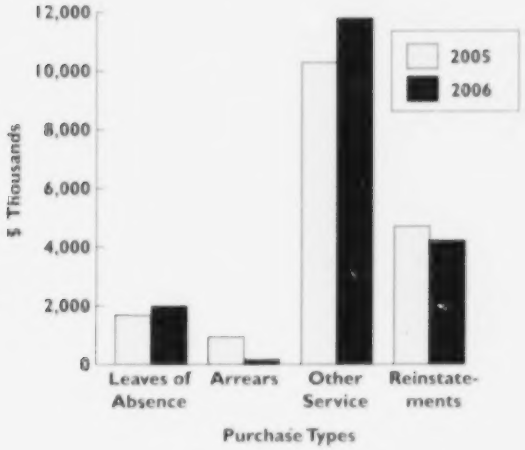
Member and Employer Purchases of Additional Service

Year ended March 31

Number of Purchases



Value of Purchases



Investments

Market Review

One of the major fiduciary roles of the Public Service Pension Board of Trustees is the responsibility for overseeing the investment of approximately $15.9 billion in assets for the long-term benefit of the plan members. The most important issue for any pension plan is long-term results, and the board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision making.

... the board's goal is to achieve consistent and steady performance over the longer term ...

The board reviews its *Statement of Investment Policies and Procedures* (SIPP) annually approves the long-term asset mix policy for the investment of assets, and oversees the management of those assets through the board's investment management agent, the British Columbia Investment Management Corporation (bcIMC). Diversification of investments is a key principle in our investment policy. Investments are held in a range of asset types (bonds, equities, real estate), industry sectors, and global market

In 2005-06, the world economy continued to grow at a solid pace. In the last part of 2005, hurricanes in the United States produced higher energy and commodity prices simultaneously raising concerns about slower growth and higher inflation. As well, trade imbalances among the United States, Japan, Europe and oil-exporting countrie increased to the point where large changes in exchange rates may be required to maintain international economic stability and growth.

Against the backdrop of solid economic growth, monetary authorities in Canada an the United States continued to raise short-term interest rates. However, for much of the year, long-term interest rates failed to rise in response to higher short-term rates, as they have in the past. At the end of the first quarter of 2006, short-term rates had risen 1.3 percentage points from their year-earlier level, while 10-year bond yields were unchanged; yields on 30-year bonds actually fell. For the year, pension bond fund returns realized by the fund ranged from 4.7% (on the corporate bond fund) to 10% (on the long-term bond fund). Longer-term interest rates will eventually respond to higher short-term rates, suggesting that bond returns will be lower in the coming year.

In Canada, rising commodity and energy prices drove profits and capital investment As result, Canadian stock prices were sharply higher during the year, with bcIMC's Canadian equity funds earning between 24.4% and 28.7%.

U.S. corporate profits also strengthened during the year, but stock prices rose more modestly than in Canada. Returns on U.S. equities ranged from 7.8% to 19.1%. Whil respectable, these returns would have been higher had the U.S. dollar not depreciate 3.4% against the Canadian dollar during the year. Currency hedging was employed t offset the impact of the falling U.S. dollar on the value of foreign investments of the Plan, producing gains of $23.4 million.

Real estate returns of 24% far exceeded the benchmark return of 6.2%.

Overall, the plan's Basic Account produced an annual return of 15.3% in 2005/06, exceeding its benchmark of 13.4%. The annualized annual return of the Basic Account over the last five years was 7.4%, compared to the benchmark of 7.1%.

Our investment managers tell us that, even though the Bank of Canada and other central banks have been raising short-term interest rates, there is still a great deal of money around the globe looking for investments. As a result, many assets appear to be over-priced, and it would not be surprising to see prices correct at some point. The plan trustees believe it is prudent to assume that the strong portfolio returns of the past year will not persist, but will revert to around 7–8% on average over the next four or five years.

Approved Investment Asset Mix

Strategic and short-term asset allocation targets are set within the ranges in the Basic Account Investment Asset Mix and Performance table below. Short-term, for asset mix purposes, includes government bonds with one- to five-year terms and money market funds.

Basic Account Investment Asset Mix and Performance

For the year ended March 31, 2006

Asset Class	Approved Range (%)	Actual Assets (%)	Rate of Return (%)	Performance Benchmark*(%)
Fixed Income	**25–45**			
Short-term	0–5	2.0	2.2	2.8
Mortgages	0–10	3.7	5.8	3.4
Bonds	17–28	21.5	6.0	5.9
Real Return Bonds	0–10	4.7	9.2	11.8
Equity	**55–75**			
Canadian Equities	15–25	22.3	27.6	28.7
U.S. Equities	10–20	14.8	10.1	10.1
International Equities	10–20	17.5	21.4	20.4
Real Estate	8–15	10.9	24.0	6.2
Private Placements	0–10	2.6	**	**

* Benchmarks are standards to compare against actual investment returns.

** Annual rate of return not applicable.

Investment Portfolio

Investments consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly, based on the fair market value of the underlying assets. In the table below, all investments are pooled, except real return bonds, which are directly held.

For further information on the investment portfolio, visit the British Columbia Investment Management Corporation website at www.bcimc.com

Investments Held as at March 31, 2006

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Short-term		
Money Market	98,156	
Bonds (1–5 years)	263,057	2
	361,213	**2**
Bonds		
Government	2,045,361	13
Corporate	692,063	4
Long-term	635,162	4
Real Return Bonds	744,007	5
	4,116,593	**26**
Canadian Equities		
Indexed	1,812,167	11
Actively Managed	1,722,899	11
	3,535,066	**22**
U.S. Equities		
Indexed	1,592,816	10
Actively Managed	740,527	5
	2,333,343	**15**
International Equities		
Asia	552,289	3
Europe	822,182	5
Europe, Australia and the Far East	1,395,042	9
	2,769,513	**17**
Real Estate, Mortgages, Private Placements and Foreign Currency		
Real Estate	1,751,713	11
Mortgages	573,334	4
Private Placements	441,515	3
Foreign Currency	28,861	
	2,795,423	**18**
Total Investments	**15,911,151**	**100**
2005 Comparison	**14,030,311**	

Investments Held as at March 31, 2006

Top Ten Holdings

(Underlying investments are in pooled portfolios.)

Canadian Equities

Company	Market Value ($ Thousands)	% of Total Canadian Equities
Royal Bank of Canada	$ 172,161	4.9
Manulife Financial	159,122	4.5
Suncor Energy Inc	149,897	4.2
Encana Corporation	140,028	4.0
Toronto Dominion Bank	133,173	3.8
Bank of Nova Scotia	132,823	3.8
Canadian National Railway	82,735	2.3
Petro-Canada	80,604	2.3
Canadian Natural Resources	78,585	2.2
Bank of Montreal	78,128	2.2
Total Top Ten	**$1,207,256**	**34.2**
Total Canadian Equities	**$3,535,066**	**100.0**

U.S. Equities

Company	Market Value ($ Thousands)	% of Total U.S. Equities
General Electric	$ 58,053	2.5
Exxon Mobil Corp	55,612	2.4
Citigroup Inc	43,928	1.9
Microsoft Corp	39,437	1.7
Bank of America	38,551	1.6
American International Group	26,623	1.1
Procter & Gamble	25,296	1.1
JP Morgan Chase	23,805	1.0
Pfizer Inc	23,770	1.0
Johnson & Johnson	22,638	1.0
Total Top Ten	**$ 357,713**	**15.3**
Total U.S. Equities	**$2,333,343**	**100.0**

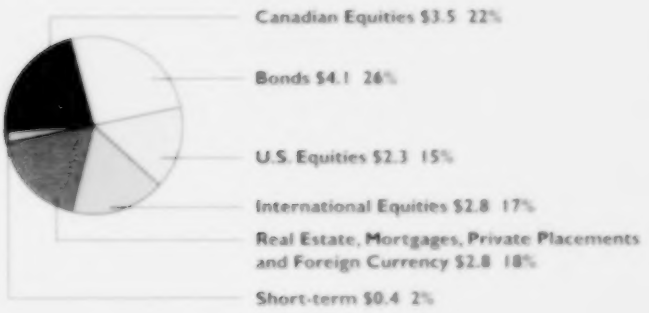
International Equities

Company	Market Value ($ Thousands)	% of Total International Equities
Total	$ 48,522	1.8
BP	41,302	1.5
Royal Dutch Shell	38,478	1.4
Mitsubishi Corp	33,918	1.2
GlaxoSmithKline	32,343	1.2
Vodafone Group	31,428	1.1
Novartis AG	31,059	1.1
HSBC Holdings	30,333	1.1
Enersis SA	28,418	1.0
Nestle SA	28,031	1.0
Total Top Ten	**$ 343,832**	**12.4**
Total International Equities	**$2,769,513**	**100.0**

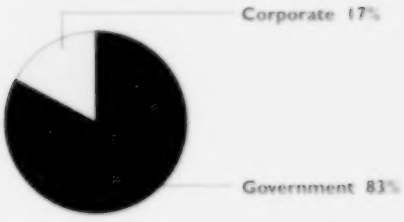
Investments Held as at March 31, 2006

Investment Holdings (Market Value)

$ Billions

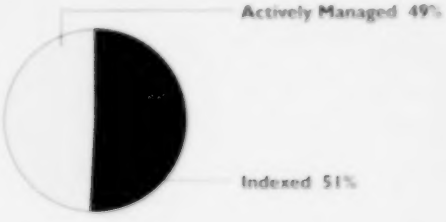

Canadian Equities $3.5 22%
Bonds $4.1 26%
U.S. Equities $2.3 15%
International Equities $2.8 17%
Real Estate, Mortgages, Private Placements and Foreign Currency $2.8 18%
Short-term $0.4 2%

Bonds (Market Value)



US Equities (Market Value)

Canadian Equities (Market Value)

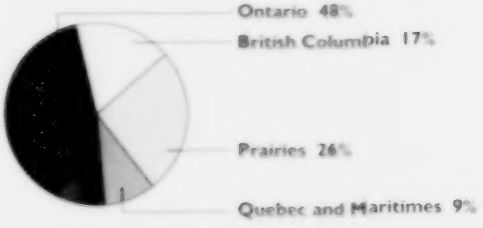


Real Estate, by Type

■ Indexed: A portfolio of securities in approximately the same proportion as a public market index (e.g., Standard & Poor's/Toronto Stock Exchange Composite)

□ Actively Managed: A portfolio of securities that is designed to outperform a public market index

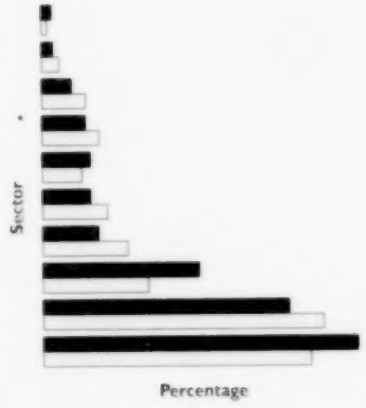
Real Estate, by Location



Investments Held as at March 31, 2006

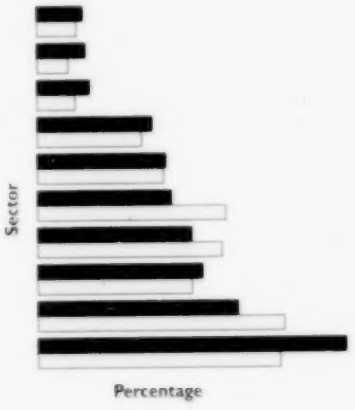
Canadian Equities, by Sector (%)

	Indexed	Actively Managed
Utilities	1.1	0.6
Health Care	1.2	1.8
Consumer Staples	3.1	4.5
Information Technology	4.5	5.9
Telecommunication Services	5.0	4.1
Consumer Discretionary	5.0	6.7
Industrial Products	5.8	8.8
Materials	16.2	10.9
Energy	25.5	29.0
Financial Services	32.6	27.7
	100.0	100.0



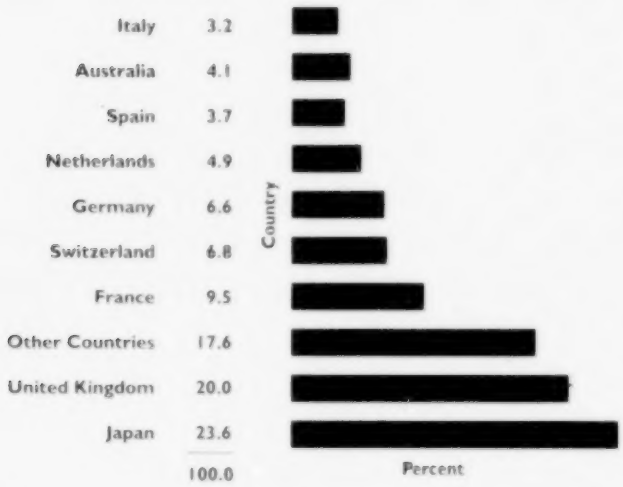
U.S. Equities, by Sector (%)

	Indexed	Actively Managed
Materials	3.4	2.9
Utilities	3.6	2.3
Telecommunication Services	3.9	2.8
Consumer Staples	8.5	7.7
Energy	9.5	9.3
Consumer Discretionary	9.9	13.9
Health Care	11.4	13.6
Industrial Products	12.2	11.4
Information Technology	14.8	18.2
Financial Services	22.8	17.9
	100.0	100.0



Investments Held as at March 31, 2006

International Equities, by Country (%)



Investment Performance

Market Value Rates of Return

Year ended March 31	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks*(%)	
Annual Rates				
2006	**15.3**	**15.9**	**13.4**	
2005	8.1	8.5	7.1	
2004	21.4	23.2	24.1	
2003	-8.9	-8.0	-10.2	
2002	3.7	3.7	4.0	
Five-year Annualized Rates**				
2006	**7.4**	**8.1**	**7.1**	
2005	3.7	4.3	3.3	
Ten-year Annualized Rates				
2006	**8.9**	**9.3**	**8.7**	
2005	8.7	8.9	8.7	
2006 Annual Rates by Investment Category				**Basic Account Performance Benchmarks***
Short-term				
Money Market	2.9	2.9	2.8	SCI 91-Day T-Bill
Bonds	2.3	2.3	2.2	SCI Short-term Government Bond
Bonds				
Government	5.2	5.2	4.9	SCI Universe Bond
Corporate	4.7	4.7	4.9	SCI Universe Bond
Long-term	10.0	10.0	9.6	SCI Government Long-term Bond
Real Return	9.2	11.1	11.8	SCI Real Return Bond
Canadian Equities				
Actively Managed	24.4	24.4	28.7	S&P/TSX Capped Equity
Indexed	28.4	28.4	28.7	S&P/TSX Equity
Enhanced	28.7	28.7	28.7	S&P/TSX Equity
U.S. Equities				
Actively Managed	11.6	11.6	9.2	R 1000
Indexed	7.8	7.8	7.8	S&P 500
Enhanced	8.9	8.9	8.9	R1000/S&P500
Value	10.8	10.8	10.8	S&P/Citigroup Value
International Equities				
Asia	30.9	30.9	28.3	MSCI Pacific Net
Europe	18.3	18.3	16.3	MSCI Europe Net
Europe, Australia and the Far East	19.7	19.7	20.0	MSCI Europe, Australasia, Far East Net
Real Estate	24.0	24.0	6.2	CPI + 4%
Mortgages				
Fixed-term	5.6	5.6	3.3	SCI Short-term Bond + 1%
Construction	6.4	6.4	3.7	SCI One-year T-Bill + 1%
Specialty	6.6	6.6	5.2	SCI One-year T-Bill + 2.5%

* Benchmarks are standards to compare against actual investment returns.

** An annualized rate means the rate for a five or ten year period converted into the equivalent annual rate. The five-year annualized rate of the Basic Account is the net earned rate of the fund.

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
MSCI	=	Morgan Stanley Capital International
R	=	Russell
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange

(Source of annual rates: British Columbia Investment Management Corporation)

Financial Health

The Public Service Pension Plan is financially sound. The fund holds a diversifie portfolio of debt and equity investments that offer consistent and steady perfor over the long term.

Every three years, an independent actuary assesses the financial health of the pl and the adequacy of the contribution rates for funding the plan. The actuarial valuation as at March 31, 2005 indicated an unfunded liability for basic pensio benefits of $767 million. As a result, the actuary has determined that an increas in contribution rates of 1.88% of salary each, for plan members and employers, necessary in order for the plan to maintain its long-term financial soundness a thus its ability to meet the pension promise made to plan members. (See page 1

An unfunded liability means there is a shortfall between the amount needed to fund basic benefits and the assets available to pay for those benefits, whereas a surplus means there are more than enough funds to meet the basic benefits.

The next valuation will be as at March 31, 2008.

Latest Actuarial Valuation as at March 31, 2005

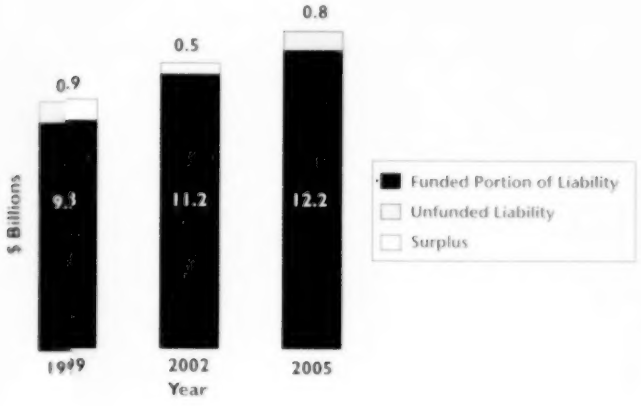
$ Millions

	Basic Pension Benefits Net Surplus (Unfunded Liability)		
	2005	**2002**	**1999**
For Funding Purposes*	(767)	546	929
Ratio of Surplus (Unfunded Liability) to Covered Payroll	(32) %	23%	41%
For Accounting Purposes to March 31	439	1,651	1,086

* Assuming contributions continue at rates in effect at the valuation date.

* See Note 7 and 8 to the Financial Statements for additional explanation.

Funding of the Total Basic Benefit Liability



Audit Committee

The mandate of the Audit Committee is to act on behalf of, and to assist the board, to provide:

- a timely and cost-effective system of accounting and reporting,
- financial statements conforming with generally accepted accounting principles,
- an independent audit of the financial statements,
- an annual report with audited financial statements.

The committee will accomplish its mandate to provide financial oversight by:

- monitoring and reporting to the boards on the integrity of reporting, internal controls, and compliance,
- monitoring and reporting on the independence and performance of the external auditors,
- monitoring and reporting on risk management as it affects financial reporting,
- recommending the selection and compensation of external auditors, and
- addressing any matter referred to the committee by one or more of the four boards.

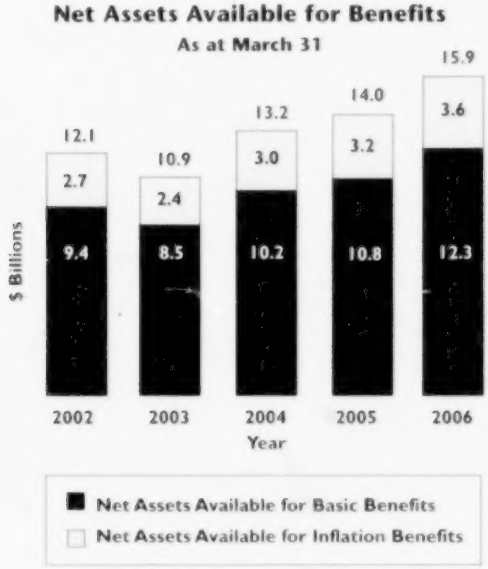
Membership on the committee includes two nominees from each of the boards of the College, Municipal, Public Service, and Teachers' Pension Plans. All nominees must be ratified by all the boards. The committee must include at least two trustees who understand accounting principles (GAAP), internal controls, and audit committee functions. The committee must meet at least three times a year. In addition to its role of financial oversight through monitoring and reporting, the committee also evaluates its own performance annually through an established procedure.

Five-year Financial Summary

$ Thousands For the year ended March 31	2006	2005	2004	2003	2002
Increase (Decrease) in Assets					
Investment Income (Loss)*	**$2,166,115**	$1,079,447	$ 2,384,406	$(1,040,412)	$441,357
Contributions					
Employers	**187,611**	191,641	196,982	190,320	182,297
Members	**157,243**	148,010	163,154	147,465	150,888
Transfers from Other Plans	**16,931**	33,493	29,713	18,235	32,377
Total Increase (Decrease) in Assets	**2,527,900**	1,452,591	2,774,255	(684,392)	806,919
Decrease in Assets					
Pension Benefits	**483,723**	450,951	406,007	365,429	316,770
Termination and Refund Benefits	**44,162**	41,858	30,049	31,607	21,927
Transfers to Other Plans	**55,010**	41,451	44,452	44,806	20,370
Retired Member Group Benefits	**31,635**	29,268	26,436	46,660	33,216
Investment and Administration Costs*	**25,893**	23,433	23,828	21,651	19,009
Total Decrease in Assets	**640,423**	586,961	530,772	510,153	411,292
Increase (Decrease) in Net Assets	**1,887,477**	865,630	2,243,483	(1,194,545)	395,627
Net Assets Available for Benefits at Beginning of Year	**14,030,373**	13,164,743	10,921,260	12,115,805	11,720,178
Net Assets Available for Benefits at End of Year	**$15,917,850**	$14,030,373	$13,164,743	$10,921,260	$12,115,805

Investment and Administration Costs*		**As a Percentage of Net Assets**			
Investment Management*	**0.19%**	0.15%	0.14%	0.16%	0.14%
Benefit Administration	**0.06%**	0.06%	0.07%	0.09%	0.07%

* External investment management costs incurred by real estate pooled fund wholly owned corporations of $14.3 million (2005—$6.1 million; 2004—$4.5 million; 2003—$5.0 million; 2002—$6.3 million) are not included in investment and administration costs, but are included in investment management costs as a percentage of net assets. These costs have been restated for comparative purposes.



Financial Statements

PENSION CORPORATION

Executive Offices

Mailing Address:
PO Box 9460
Victoria BC
V8W 9V8

Location:
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Victoria BC
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Phone:
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PREMIER'S AWARD

PUBLIC SERVICE PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Public Service Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Pension Corporation), the administrative agent for the Public Service Board of Trustees (Board) of the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles. The Pension Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Public Service Pension Plan Annual Report conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Pension Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.

S. Lenz

SANDRA LENZ, CA
Chief Financial Officer
British Columbia Pension Corporation

Ron Millard

RON MILLARD, FCGA
Director, Finance
British Columbia Pension Corporation

July 14, 2006

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Telefax (250) 480-3539
www.kpmg.ca

AUDITORS' REPORT

To the Members of the Public Service Pension Plan

We have audited the statement of net assets available for benefits of the Public Service Pension Plan as at March 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the board of trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at March 31, 2005 and the results of its operations and changes therein for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada
July 14, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member of KPMG International, a Swiss nonoperating association.

Public Service Pension Plan

PUBLIC SERVICE PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

As at March 31	2006	2005
ASSETS		
Investments (Note 3)	$ 15,911,151	$ 14,030,311
Receivables		
Members' contributions	5,782	5,175
Employers' contributions	8,002	7,271
Due from MLA Superannuation Account		1,364
Accrued investment income	7,412	7,213
Due from sale of investments	7,008	31,808
	28,204	52,831
Prepaid expenses	1,742	1,692
Cash	754	559
Total Assets	$ 15,941,851	$ 14,085,393
LIABILITIES		
Payable for purchase of investments	10,505	40,895
Accounts payable and accrued expenses	13,496	14,125
Total Liabilities	24,001	55,020
NET ASSETS AVAILABLE FOR BENEFITS	$ 15,917,850	$ 14,030,373

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)

John W. Cook, FCIA
Chair, Public Service Pension Board of Trustees

Bruce Clow
Trustee
Public Service Pension Board of Trustees

Diane Wood
Trustee
Public Service Pension Board of Trustees

Public Service Pension Plan

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended March 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	2006	2005
INCREASE IN ASSETS					
Investment income (Note 4)	$ 1,650,526	$ 515,589	$	$ 2,166,115	$ 1,079,447
Contributions (Note 5)					
Employers'					
Province of British Columbia	69,821	16,905	23,220	109,946	119,570
Other	50,540	15,201	11,924	77,665	72,071
	120,361	32,106	35,144	187,611	191,641
Members'	118,628	38,393	222	157,243	148,010
	238,989	70,499	35,366	344,854	339,651
Transfers from other plans	11,882	4,252		16,134	32,068
Transfers from MLA Superannuation Account (Note 2)	708	89		797	1,425
Total Increase in Assets	1,902,105	590,429	35,366	2,527,900	1,452,591
DECREASE IN ASSETS					
Pension benefits					
Contributory	393,991		3,063	397,054	370,130
Indexing supplements	86,472		197	86,669	80,821
	480,463		3,260	483,723	450,951
Termination benefits and refund benefits	24,979	19,183		44,162	41,858
Transfers to other plans	39,774	15,236		55,010	41,451
Retired member group benefits (Note 10)			31,635	31,635	29,268
Investment and Administration costs (Note 9)	21,604	3,818	471	25,893	23,433
Total Decrease in Assets	566,820	38,237	35,366	640,423	586,961
INCREASE IN NET ASSETS BEFORE TRANSFERS	1,335,285	552,192		1,887,477	865,630
Account transfers (Note 6)	149,664	(149,664)			
INCREASE IN NET ASSETS	1,484,949	402,528		1,887,477	865,630
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	10,787,413	3,242,960		14,030,373	13,164,743
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 12,272,362	$ 3,645,488	$	$ 15,917,850	$ 14,030,373

Supplemental Benefits Account (Note 10)

PUBLIC SERVICE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN

The Public Service Pension Plan (Plan) is a jointly trusteed pension plan governed by a Joint Trust Agreement (Agreement). Joint trusteeship was established on January 1, 2001. The partners to the Agreement are the Province of B.C. and the B.C. Government and Service Employees' Union (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Public Service Pension Board of Trustees (Board) and provides the authority for the Board to make Plan rules. The following brief description of the Plan is provided for general information only. For more information please refer to the Joint Trust Agreement and the Plan rules.

a) General

The Plan is open to eligible employees of the Province of B.C. and certain crown corporations, agencies, institutions and other employers approved by the Board.

b) Roles and Responsibilities

The Board of Trustees
The Partners are responsible for directing amendments to the Plan, if certain conditions are met, and for resolving trustee disputes. The Board consists of up to fifteen members. The Partners and key stakeholders appoint fourteen members representing Plan members and Plan employers. The other trustees appoint the fifteenth member, the chair. The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the Plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan. Unless required to ensure compliance with regulatory enactments applicable to the Plan, Plan rule changes that result in contribution rate changes can only be initiated by the Partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board.

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

c) Contributions

Basic Account
Members contribute to the Basic Account 4.25% (6.13% effective April 1, 2006) of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($41,100 in 2005) and 5.75% (7.63% effective April 1, 2006) of salaries above the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5, 7a and 10).

Employer contributions to the Basic Account match those for members except for certain limited groups (e.g. correctional centre employees, ambulance employees, provincial court judges, masters of the Supreme Court, and some deputy ministers and officers of the Legislature) where employers pay a higher rate to compensate for the additional cost of their benefits, less amounts allocated to the Supplemental Benefits Account (Notes 5, 7 and 10).

Inflation Adjustment Account and Supplemental Benefits Account
Members contribute 1.5% (1.25% to March 31, 2005) of salaries to the Inflation Adjustment Account (IAA). Employers contribute 2.50% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (Notes 5, 7b and 10).

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups);
- at age 55 or older, where age plus years of service equals 85 or more; or
- at age 50 or older, where age plus years of service equals 85 or more for certain groups.

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.35% (1.3% for members who terminated prior to March 1, 2002) of pensionable earnings up to the YMPE, and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's five-year highest average salary (HAS).

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

d) Pension Benefits (continued)

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.65% (0.7% for members who terminated prior to March 1, 2002) of the lesser of the YMPE or the HAS.

Certain limited groups of members (eg. provincial court judges, masters of the Supreme Court, and some deputy ministers and officers of the Legislature) receive different benefits.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2006, retired members received a full CPI increase of 3.4% (2005: 1.8%).

e) Termination and Portability Benefits

A terminating member who is eligible for a pension, but has not reached the earliest retirement age may choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements. A terminating member who is not eligible to receive a pension may also choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

g) Income Taxes

The Plan is a Registered Pension Plan (RPP), as defined in the *Income Tax Act* (Canada), except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements are prepared on the going concern basis and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the Plan. It does not purport to show whether these assets are adequate to meet all of the obligations of the Plan. The actuarial valuation of the basic account for funding purposes is included in Note 7.

Certain comparative figures have been reclassified to conform with the current year's presentation.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of these assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The fair value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in fair value includes realized and unrealized gains and losses which are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date. Income and expenses from derivative contracts are recognized on the accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

d) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period... Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account. Actual results could differ from these estimates.

3. INVESTMENTS (FAIR VALUE)

	2006			2005
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Thousands)			
Short-term	$ 244,009	$ 117,204	$ 361,213	$ 103,534
Canadian Bonds	3,206,847	909,746	4,116,593	3,992,314
Canadian Equities	2,736,312	798,754	3,535,066	3,342,841
U.S. Equities	1,809,246	524,097	2,333,343	2,015,125
International Equities	2,141,185	628,328	2,769,513	2,169,981
Foreign Currency	22,084	6,777	28,861	20,220
Mortgages	447,428	125,906	573,334	554,780
Real Estate	1,338,116	413,597	1,751,713	1,458,643
Private Placements	319,858	121,657	441,515	372,873
	$ 12,265,085	$ 3,646,066	$ 15,911,151	$ 14,030,311

3. INVESTMENTS (FAIR VALUE) (continued)

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with maturities of 15 months or less, and short-term bonds with one to five year terms. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, investments in Europe, Australia and the Far East. The foreign currency pooled fund engages in the buying and selling of foreign currency financial instruments to enhance returns through the active management of foreign currency exposure.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. The real estate is valued quarterly by bcIMC's external real estate investment managers and, at least once every ten to eighteen months, by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers.

The Plan also uses derivative contracts held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or exchange rates.

Basic Account Canadian bonds of $13.5 million (2005: $0 million) are being held in a collateral account for a future investment opportunity (Note 11).

4. INVESTMENT INCOME

	2006			2005
	Income Allocation	Current Period Change In Fair Value	Total	Total
	($ Thousands)			
Basic Account				
Short-term	$ 6,927	$ (4,136)	$ 2,791	$ 2,476
Canadian Bonds	146,055	55,800	201,855	183,850
Canadian Equities	51,674	516,927	568,601	344,457
U.S. Equities	49,766	173,169	222,935	33,734
International Equities	48,760	325,742	374,502	94,730
Foreign Currency	592	(1,956)	(1,364)	428
Mortgages	24,246	1,166	25,412	20,780
Real Estate	21,300	214,393	235,693	122,502
Private Placements	1,189	18,912	20,101	15,109
	$ 350,509	$ 1,300,017	$ 1,650,526	$ 818,066
Inflation Adjustment Account				
Short-term	$ 2,625	$ (1,200)	$ 1,425	$ 755
Canadian Bonds	42,091	20,592	62,683	66,993
Canadian Equities	15,142	165,272	180,414	94,020
U.S. Equities	14,242	44,744	58,986	19,831
International Equities	14,375	99,448	113,823	30,300
Foreign Currency	176	(600)	(424)	135
Mortgages	6,947	369	7,316	6,189
Real Estate	6,345	66,576	72,921	36,424
Private Placements	1,661	16,784	18,445	6,734
	$ 103,604	$ 411,985	$ 515,589	$ 261,381
Total Investment Income	$ 454,113	$ 1,712,002	$ 2,166,115	$ 1,079,447

Investment income represents pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, and interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

5. CONTRIBUTIONS

	2006				2005
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
			($ Thousands)		
Employers' contributions					
Province of British Columbia					
Regular	$ 64,524	$ 14,820	$ 3,233	$ 82,577	$ 86,977
ERIP Contributions	852	337	-	1,189	7,832
Arrears	26	15	-	41	264
Purchase of service	2,773	1,405	-	4,178	3,574
Leave of absence	550	292	-	842	678
Reinstatement	1,096	36	-	1,132	1,728
Retired member group benefits	-	-	19,987	19,987	18,517
	$ 69,821	$ 16,905	$ 23,220	$ 109,946	$ 119,570
Other employers					
Regular	$ 48,960	$ 14,266	$ 276	$ 63,502	$ 58,438
ERIP Contributions	129	48	-	177	389
Arrears	32	18	-	50	314
Purchase of service	1,245	769	-	2,014	1,965
Leave of absence	174	100	-	274	214
Retired member group benefits	-	-	11,648	11,648	10,751
	$ 50,540	$ 15,201	$ 11,924	$ 77,665	$ 72,071
Total Employers'	$ 120,361	$ 32,106	$ 35,144	$ 187,611	$ 191,641
Members' contributions					
Regular	$ 111,225	$ 36,370	$ 68	$ 147,663	$ 139,163
Arrears	42	13	-	55	343
Purchase of service	4,073	1,364	154	5,591	4,748
Leave of absence	647	214	-	861	781
Reinstatement	2,641	432	-	3,073	2,975
Total Members'	$ 118,628	$ 38,393	$ 222	$ 157,243	$ 148,010
Total Contributions	$ 238,989	$ 70,499	$ 35,366	$ 344,854	$ 339,651

Member and employer contributions are as defined under the Plan rules.

6. ACCOUNT TRANSFERS

	2006		2005	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
	($ Thousands)			
Present value of current indexing supplements	$ 145,409	$ (145,409)	$ 68,171	$ (68,171)
Indexing of deferred pensions	4,255	(4,255)	4,070	(4,070)
Excess interest	-	-	-	-
	$ 149,664	$ (149,664)	$ 72,241	$ (72,241)

The Inflation Adjustment Account (IAA) is a separate account that is maintained for funding current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is transferred from the IAA to the Basic Account.

There have been no excess interest transfers to the IAA for the years ended March 31, 2003 through 2006. Excess interest is based on investment income earned on Basic Account assets required for pensions currently being paid, approximately $4.5 billion of assets for 2006 (2005: $4.0 billion). The excess interest rate of return is determined by taking the difference between the actual five-year annualized market rate of return and the rate of return used by the actuary (6.75%) in valuing the Plan's liabilities. The calculated excess interest rate of return for 2006 was 0.65%; (2005: -3.6%), resulting in a positive excess interest amount of $29.5 million (2005: $145.1 million negative excess interest). The remaining cumulative negative excess interest amount is $387.0 million (2005: $387.8 million) which includes interest applied for 2006 of $28.7 million (2005: $8.7 million). This cumulative negative excess interest amount of $387.0 million will be offset against future positive excess interest amounts before positive excess interest transfers will resume.

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued benefit obligations to the financial statement date, and contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the level rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

The most recent full actuarial valuation for funding purposes was prepared as at March 31, 2005. This valuation disclosed an unfunded actuarial liability(UAL) for basic account pension benefits of $767 million (2002: $546 million surplus), assuming future contributions at the contribution rates in effect at the valuation date. The following long-term actuarial assumptions were used:

- annual investment return 6.75% (2002: 7.30%)
- annual salary escalation rate 4.00% (2002: 4.80%)

The main changes between the 2002 and 2005 valuation are as follows:

	($ Millions)
Surplus as at March 31, 2002	$ 546
Changes in investment and salary assumptions	(583)
Changes in other assumptions	(32)
Investment income lower than actuarial rate of return	(1,158)
Contributions below normal cost	(154)
Interest on Surplus	128
Salary increases lower than assumed	349
Other actual experience different than expected	137
UAL as at March 31, 2005	$ (767)

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

The next full actuarial valuation will be at March 31, 2008, for inclusion in the March 31, 2009 financial statements.

The Joint Trust Agreement (Agreement) specifies that, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The agreement also describes the manner in which the Board can elect to apply surplus assets.

Based on the results of the 2005 actuarial valuation, the actuary determined that an increase in contribution rates was necessary for the Plan to maintain its proper financing. Therefore, the trustees decided that, effective April 1, 2006 member and employer contribution rates would each be increased by 1.88% of salaries, as recommended by the actuary (Note 1c).

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members, full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the Plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential indexing.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, when the IAA assets may cease to grow and therefore, when the Plan may not be able to grant full indexing of benefits. As long as there are contributions to the IAA, there will be some measure of indexing protection for retired members.

To help strengthen the Plan's IAA, the Public Service Pension Plan Partners entered into an agreement to amend the Plan rules. The agreement resulted in employer contributions to the IAA increasing by 0.25% of salaries effective on April 1, 2004 and a parallel 0.25% increase to Plan member contributions effective April 1, 2005 (Note 1c).

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in Note 7a.

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any indexing that has been granted to retired members is paid. Future indexing benefits are not guaranteed within the Plan provisions, and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the present value funding necessary for the indexing granted. Therefore, accrued basic pension benefits for valuation purposes includes the liability for all indexing granted to the date of the valuation, but not for, as yet unknown, future indexing.

The latest full valuation was made as at March 31, 2005, by Eckler Partners Ltd., the results were as follows:

As at March 31	2005	2002
	($ Millions)	
Net assets available for basic pension benefits	$ 10,787	$ 9,394
Five year market value smoothing adjustment	(429)	253
Net actuarial assets for basic pension benefits	10,358	9,647
Liability for accrued basic pension benefits	9,919	7,996
Actuarial Surplus	$ 439	$ 1,651

The next full actuarial valuation will be at March 31, 2008 for inclusion in the March 31, 2009 financial statements.

The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes, an estimate of the actuarial position between valuations is required. This estimate, called an extrapolation, has been made to March 31, 2006, using the following long-term actuarial assumptions.

- annual investment return 6.75% (2002: 7.30%)
- annual salary escalation rate 4.00% (2002: 4.80%)

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

On this basis, the extrapolated value of the surplus at March 31 is as follows:

Extrapolated Actuarial Assets Available for Basic Pension Benefits As at March 31	2006	2005
	($ Millions)	
Extrapolated actuarial assets, beginning of year	$ 11,503	$ 10,890
March 31, 2005 valuation adjustment	$ (1,145)	$ -
Extrapolated actuarial assets, beginning of year	$ 10,358	$ 10,890
Account transfers	150	72
Current year contributions	242	244
Net transfers from (to) other plans	(27)	(5)
Pension, termination and refund benefits	(518)	(485)
Interest accrued on assets	691	787
Extrapolated actuarial assets, end of year	$ 10,896	$ 11,503

Extrapolated Actuarial Liability for Accrued Basic Pension Benefits As at March 31	2006	2005
	($ Millions)	
Extrapolated actuarial liability for accrued basic pension benefits, beginning of year	$ 9,762	$ 9,182
March 31, 2006 valuation adjustment	157	-
Extrapolated actuarial liability for accrued basic pension benefits, beginning of year	9,919	9,182
Account transfers	150	72
Current period benefit cost	355	332
Net transfers from (to) other plans	(27)	(5)
Pension, termination and refund benefits	(518)	(485)
Interest accrued on liability	666	666
Extrapolated actuarial liability for accrued basic pension benefits, end of year	$ 10,545	$ 9,762
Extrapolated Surplus, March 31	**$ 351**	**$ 1,741**
Fair value of Basic Account net assets available for benefits	$ 12,272	$ 10,787
Fair value changes not reflected in extrapolated actuarial value of net assets	$ (1,376)	$ 716
Extrapolated actuarial value of net assets available for benefits	$ 10,896	$ 11,503

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. RELATED PARTY TRANSACTIONS

a) Transfers from Members of the Legislative Assembly (MLA) Superannuation Account

	2006	2005
	($ Thousands)	
Present value of MLA pensions granted	$ 708	$ 1,287
Present value transfer for indexing supplements	89	138
	$ 797	$ 1,425

When a Member of the Legislative Assembly (MLA) is granted a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Plan, from which monthly benefits are paid. During the year ended March 31, 2006 four MLA pensions were granted (2005 – three pensions were granted).

b) Investment and Administration Costs

	2006	2005
	($ Thousands)	
Investment Management	$ 16,602	$14,815
Benefit Administration	8,548	8,099
Board Remuneration and Expenses	188	168
Board Secretariat Costs	184	146
Other Professional Services	371	205
	$ 25,893	$23,433

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards.

Costs for investment management services charged by bcIMC include costs for recovery of its internal and external investment management fees except those external management fees related to corporations wholly owned by the investment pooled funds.

9. RELATED PARTY TRANSACTIONS (continued)

b) Investment and Administration Costs (continued)

Investment management costs of $14.3 million (2005: $6.1 million) representing the external management costs incurred by wholly-owned corporations of the investment pooled funds are not included in the above amount.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. These costs are approved by the Board. Included in accounts payable is $1.5 million (2005: $1.4 million) due to the Pension Corporation for those costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts for staffing and other costs associated with Board support.

Other professional services include actuarial, insurance, audit and legal fees.

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through this account. The availability, type and level of retired member group benefit coverage is contingent upon the availability of funding for such benefits.

To the extent that group benefits are funded from the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer inflation contributions and cannot exceed 50% of the total of current member and employer inflation adjustment contributions. Retired member group benefit costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by members.

11. COMMITMENTS

The Plan participates in private placement and international real estate pools that are managed by bcIMC. As at March 31, 2006, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $663 million (2005: $351 million).

11. COMMITMENTS (continued)

During 2006, bcIMC established a collateral account pledged as security for a future investment opportunity that will not be funded until 2009. As at March 31, 2006, $13.5 million of Basic Account Canadian bonds are being held as collateral for an investment commitment of $12.3 million.

12. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximates their carrying values.

Fair values of investments are exposed to price risk and credit risk. Price risk is comprised of foreign currency risk, interest rate risk, and market risk. Foreign currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

Foreign Currency Risk
Foreign currency exposure arises from the Plan's holdings of foreign currency denominated investments and related derivative contracts. Foreign currency forward contracts are used to manage a portion of the currency exposure. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate.

Interest Rate Risk
The value of the Plan's assets is affected by changes in interest rates and their effect on capital markets. Actuarial liabilities are affected by changes in long-term market interest rates.

Market Risk
The Board approves the long-term asset mix policy for investment assets and oversees the management of these assets through the Board's investment management agent, bcIMC. Market risk is reduced through asset class diversification, diversification within each asset class and credit quality constraints on fixed income instruments.

Credit Risk
The Plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

This is a publication of the
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